Committee On Finance
Max Baucus, Ranking Member

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Senate Passes Legislation to Secure Employer Pension System

Baucus Works to Provide Stability and Confidence in Employee Retirement Plans

(WASHINGTON, D.C.) The U.S. Senate today passed pension legislation proposed by Sens. Max Baucus, Chuck Grassley, Edward Kennedy, and Judd Gregg by a vote of 86 to 9. The legislation will help ensure that the nation's employers can afford to continue making contributions to their employee's retirement plans.

The Baucus-Grassley-Kennedy-Gregg package will tie the employer contribution formula to the interest rate on long term corporate bonds for two years, instead of to the 30-year Treasury interest rate. This bill became necessary because a temporary adjustment to the interest rate used to determine what companies must contribute to their employee defined-benefit plans expired on Jan. 1 of this year, leaving employers to face the prospect of having their contribution formula tied to the U.S. Treasury Department's 30-year bond, which is no longer issued.

"I am pleased by the Senate's overwhelming support of our pension legislation, which will help protect the retirement security of our nation's employees," Baucus said. "It's important that the House and the Administration move quickly on our bill to prevent additional employers from dropping pension coverage due to rising rates. It's also vital that we bring employers who have already been financially forced to drop coverage back on board."

A recent survey found that 15 percent of defined benefit plan sponsors have frozen plans since January 1, 2001 and an additional 6 percent are actively considering freezing their defined benefit plans.

"In this economy, employers will have a difficult time continuing to provide retirement benefits if contribution rates jump. But even more than that, employers can't plan ahead if the rates continue to vary widely year to year," Baucus added. "Our bill will allow them to use long term corporate bond rates for two years and I anticipate that we will have a long term solution in place by then, such as the pension legislation Chairman Grassley and I introduced last year."

Last September, the Finance Committee passed the Grassley-Baucus "National Employee Savings and Trust Equity Guarantee Act." The bill includes a set of long-term funding changes to help streamline the pension system and provide temporary relief for companies that are suffering. The bill will provide a temporary substitute for the 30-year Treasury rate, similar to the provision in the bill passed today, and will also provide for the long-term replacement of the 30-year Treasury rate with a yield curve - a conservative basis for liability measurement. Importantly, the Finance Committee bill also includes provisions to allow companies to put more money into their plans when times are good.

"Today the Senate took an important step that will stem the tide of employers dropping pension coverage, but we can't take our eye off of the goal of passing common sense long-term pension legislation that protects our employees and plans for the future," Baucus said.

The pension package passed today will also reduce the amount that companies must contribute in "catch-up" funding to under-funded pension plans - known as Deficit Reduction Contribution (DRC) Relief. The amount of DRC would be reduced by 80 percent this year and by 60 percent next year for companies that were not subject to the DRC requirement in 2000. Airlines and steel companies that were not subject to the DRC in 2000 would automatically qualify for the relief. Other employers would be eligible for relief by applying to the U.S. Treasury Department.

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